

**Opening Statement of
Rep. Henry A. Waxman**

**Committee on Government Reform
June 21, 2006**

Thank you, Mr. Chairman, for holding this hearing on federal contracts with Alaska Native Corporations.

On Monday, I released a major report entitled: *Dollars, Not Sense: Government Contracting under the Bush Administration*. This report, which is based on a review of over 500 government audits, is the first comprehensive assessment of federal contracting under the Bush Administration. I ask that this report be made part of today's hearing record.

As the report documents, procurement spending has grown rapidly over the last five years, nearly twice as fast as the rest of the federal budget. The result is that 40 cents of every discretionary federal dollar now goes to private contractors, a record level.

Unfortunately, while contract spending has soared, oversight has been discouraged and accountability undermined. The result is that mistakes have been made in virtually every step of the contracting process: from pre-contract planning through contract award and oversight to recovery of contract overcharges.

Contractors get rich, but taxpayers get gouged. The report identifies 118 contracts worth \$745 billion that have experienced significant overcharges, wasteful spending, or mismanagement over the last five years.

That's the big picture. Today, we are going to focus on one small but important part of the problem: federal contracts with Alaska Native Corporations.

This is our first hearing on these contracts, but Chairman Davis and I began our oversight of this issue over a year ago. To lay a foundation for this hearing, we jointly asked the Government Accountability Office to investigate and we requested contract documents from the Departments of Defense, Homeland Security, and State.

Our investigation has focused on the special contracting privileges that Alaska Native Corporations, or ANCs, have under federal law. Federal contracting law provides a valuable but limited privilege for small minority and economically disadvantaged businesses: under section 8(a) of the Small Business Act, these companies can be awarded contracts worth up to \$5 million without competition. But a 1986 law eliminated the \$5 million ceiling for all Alaska Native Corporations.. The result is that Alaska Native Corporations can be awarded federal contracts of any size without any competition.

What both the GAO investigation and the contracting report I released found is that this contracting “flexibility” has been grossly abused by the Bush Administration. In 2000, the last year of the Clinton Administration, Alaska Native Corporations received only \$265 million in federal contracts. But four years later, spending on these contracts had ballooned to over \$1 billion per year.

The original purpose of the special ANC contracting privileges was to encourage economic opportunities for Alaska Natives living in Alaska. But the Administration has used ANC contracts to manage commercial property in Virginia, renovate buildings in Brazil, and train security guards in Iraq. And much of the work has been done by non-Native companies working as subcontractors. In effect, the contracts become a convenient vehicle for circumventing open competition requirements at great expense to the taxpayer.

Today, I am releasing an analysis of some of the documents that the Committee has received. The documents show how members of Congress from Alaska have pressured agency officials to provide special treatment to Alaska Native Corporations in contracting actions. They also show that an Alaska Native Corporation received large fee awards despite repeatedly receiving poor security performance evaluations. I ask that this analysis and the documents it cites also be made part of today’s hearing record.

When GAO examined how federal agencies are using the ANC contracting provisions, it found that Administration officials view the provisions as – and I quote – an “open checkbook.” GAO also found “almost no evidence” that contracting officials are effectively enforcing the legal requirement that at least 50% of the work under these contracts be performed by the Alaska Native Corporation rather than large, non-Native subcontractors. In one case identified by GAO, an agency wanted to contract with a particular company but could not award a no-bid contract directly to that company. The agency solved this problem by awarding a “pass-through” contract to an ANC and requiring it to subcontract with the favored company.

The abuse of the ANC provision has been costly to the taxpayer. In one case described by GAO, the State Department awarded a no-bid contract to an ANC even though its initial proposed price was double the government’s cost estimate. In another case, rather than buying water and fuel tanks directly from a manufacturer, the Army awarded a no-bid contract to an ANC, which had the effect of adding an unnecessary layer of fees to the contract. When an ANC was used to provide emergency classrooms after Hurricane Katrina, prices again doubled.

The special contracting privileges for Alaska Native Corporations were established with the best of intentions. But along the way – and especially over the last five years – these good intentions have been replaced by avarice and indifference to the interests of the taxpayer.

Fundamental changes in the law are needed, and I hope this hearing will be the first step on the road to reform.